

APPROVED BY COUNCIL ON APRIL 26, 2010

**ECONOMIC DEVELOPMENT ADVISORY COUNCIL
OCTOBER 22, 2009
301 SOUTH PARK – ROOM 228
HELENA, MT**

PRESENT

Evan Barrett, Chair	Corlene Martin
Jim Atchison	Tony Preite
Kathie Bailey	Richard Sangrey
Senator Joe Balyeat	Wade Sikorski
Representative John Fleming	Curt Starr
Sheila Hogan	Paul Tuss
Liz Marchi	

ABSENT

Senator Kim Gillan	Joseph Reber
Representative Tom McGillvray	Jim Smitham
Joe Menicucci	Linda Twitchell

COMMERCE STAFF

Dave Cole	Andy Poole
Gail Gallik	Karyl Tobel
Mary McMahan	Fran Viereck
Quinn Ness	Janice Wannebo

GUESTS

John Balsam, Principal, John Balsam Associates, LLC
Dick King, Executive Director, Missoula Area Economic Development Corporation
Sharon Peterson, Executive Director, Montana Bioscience Alliance
Anne Marie Quinn, CEO, Montana Molecular
Matt Stayner, Fiscal Analyst, Legislative Fiscal Division
Pat Murdo, Research Analyst, Office of Research & Policy Analysis, Legislative Services Division

In the brief absence of Chairman Barrett at the beginning of the meeting, Director Preite called the meeting to order at 10:10 a.m. Director Preite thanked the Council members for attending the meeting and providing input on economic development issues on the agenda. Council and audience introductions followed.

MINUTES

Mr. Tuss **MOVES** to approve the minutes as submitted. Ms. Bailey **SECONDS** the motion. The motion passed unanimously.

COMMERCE ECONOMIC DEVELOPMENT INITIATIVES

Andy Poole, Commerce Deputy Director, presented an update on the 2009 Commerce Activities. Mr. Poole referenced the American Recovery & Reinvestment Act (ARRA) website <http://recovery.mt.gov/commerce> as a source for specific up-to-date details concerning the

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efforts of the Department of Commerce and the economic development stimulus funds. Mr. Poole's presentation (attached as Exhibit A) outlines the new programs recently approved by the 2009 Legislature and administered by the Department of Commerce.

Senator Balyeat asked why the Wood Products Industry Revolving Loan Program shows 21 separate loans to 14 companies. Mr. Poole indicated that there are three different funding sources for the loans and that the funding sources require separate loan documents therefore; there are more loans than companies.

Senator Balyeat also asked which tribal government has not signed the contract for tribal government grants. Mr. Poole replied that it was the Little Shell Tribe. Mr. Poole indicated that the Little Shell Tribe is not a federally recognized tribe, but is a state recognized tribe. The Department is currently working on accounting issues within that contract to ensure the funds are spent correctly. Mr. Poole indicated any questions concerning the programs outlined on the presentation should be directed to the appropriate contacts listed on the last page of this presentation. A Montana map showing infrastructure improvements and projects assisted by Commerce programs and the stimulus funds was created giving a visual depiction of where the money is being used.

Director Preite commended Department of Commerce staff for their efforts in getting ARRA programs and funds implemented quickly. Ms. Bailey also commended Commerce staff. Ms. Hogan suggested a press release on the projects and the map to show the public how much money is at work in the state.

GOVERNOR'S ECONOMIC DEVELOPMENT INITIATIVES

Chairman Barrett's presentation entitled "Economic Development 'Vision' for Montana" (attached as Exhibit B) outlined the economic development initiatives in the Governor's Office. Overall, Montana has been "on the move" economically. Like the rest of the country, Montana's economy has been sliding. Montana has been better off than almost all states economically and is better off than most states financially under the country's current economic downturn. This has been the worst recession since the Great Depression; Montana is only one of two states operating in the "black" with a \$400 million surplus as of September 2009. Montana is not being hurt at the tax-base level because we have no sales tax. When a consumer-driven economy goes down, so does a state's tax revenues which in turn affects the services a state can provide.

Chairman Barrett distributed "The Schweitzer Energy Policy" (handout) outlining the details of Montana's diversification of renewable and clean energy using Montana's energy resources – wind, oil and gas, bio-fuels, biomass, and coal. Montana has the fastest growth in the nation in both wind and oil development. The photos at the end of the presentation were taken recently during the Governor's visit to the Fuhrländer turbine plant in Germany and NaturEner USA in Spain.

WORKFORCE DEVELOPMENT PROGRAMS

Keith Kelly, Commissioner, Montana Department of Labor and Industry, acknowledged that historically Montana is usually about six (6) months behind the rest of the nation in unemployment. Under the current recession, Director Kelly does not believe this will happen mainly because this is a fundamentally different type of recession. He anticipates that Montana

will top at 7% unemployment and then climb slowly as the recession ends. The stimulus package contained a large portion for unemployment benefits and he anticipates another extension for those unemployed. For every \$1 of unemployment paid \$1.63 is generated in the economy.

Director Kelly thanked the Council's efforts during the 61st Legislative session. Programs such as the Business Expansion and Retention (BEAR) Program coupled with the Incumbent Workforce Training Program (in the Billings, Lewistown, & Livingston areas) have really assisted the Department of Labor and Industry in their efforts and have been a tremendous success in those regions. A total of \$650,000 was earmarked under an "employment security account" which will assist the programs.

Director Kelly distributed the "Western Montana Regional Innovation Grant (RIG)" brochure and the Workforce Development Programs for Individual and Businesses (Federal and State Funding Sources) dated July 1, 2007 – June 30, 2008 for the Council's review. Labor gave three \$25,000 planning grants under RIG to assist regional leaders in developing a plan and strategies to revitalize and grow the economy in western Montana. The workforce brochure outlines the state and federal funding sources and provides contact information for individuals and businesses targeted to receive services.

Director Kelly mentioned other programs that have obtained grants such as the 2010 Initiative (20% reduction in facility energy requirements by executive branch agencies by the end of 2010); the Green Jobs Act using some of the Workforce Investment Act funds to promote "green jobs;" the Energy Training Partnership involving all ten (10) trades committed toward energy trainings, and the State Energy Sector Partnership and Training Program.

Ms. Marchi asked about the need to have something similar to the Bioscience Alliance in the energy arena so that new companies are at the table when training for energy jobs is established to ensure effective training for the companies. Director Kelly indicated that the private sector is involved in designing the "energy" training programs. Sikorski asked if an analysis has been done on how many "green jobs" are made on renewable energy verses conventional energy. Director Kelly indicated no analysis yet but believes a lot of the "green" jobs now and in the future will be jobs that retrofit the existing infrastructure to catch up with new "greener" materials.

SMALL BUSINESS INNOVATION AND RESEARCH (SBIR)

Sharon Peterson, Executive Director, Montana Bioscience Alliance, and Anne Marie Quinn, CEO, Montana Molecular, distributed a handout entitled "Augmenting the Power and Potential of Small Business in Montana" (attached as Exhibit C) focused on building technology-based businesses. Small Business Innovation & Research (SBIR) and Small Business Technology Transfer (STTR) are the two programs that assist leading-edge technologies/businesses in obtaining funds for research and development. SBIR is the seed money for creating new technology businesses with a two-phase grant program: Phase I (feasibility) and Phase II (prototype). Phase II is where "angel" investors become involved. For these businesses, sustainability is only possible if a business gets to the commercialization stage which involves protecting intellectual property, market research, and attracting investors. Federal funds can't be used for those activities.

In 2009, the Legislature passed HB572 allowing state matching funds for Phase I SBIR grants that can be used for essential commercialization activities. Unfortunately, no funds were awarded under HB572 so the next step is to seek funding for this legislation. Peterson asked for EDAC's support and guidance for SBIR matching funds during the next session.

Ms. Marchi emphasized that "angel investors" or "venture capitalists" do not fund research and development because they don't understand the technology. These matching funds are therefore essential to Montana technology-based businesses. Director Barrett asked how much is needed to provide an adequate amount of resources for a state match to be meaningful. Peterson indicated approximately \$100,000 per grant is needed so for a 1:1 match or approximately \$2.6 million per year. On average, there are approximately twenty-five (25) Phase I companies in Montana. Ms. Peterson acknowledged a chart showing the SBIR/STTR Awards in Montana since 1984 was included in the handout. Director Barrett asked Ms. Peterson and Ms. Quinn if they want this Council to take into consideration, as a general question, what the state should do about the lack of matching funds for this program. Then also asked if there is anything the short-term or statutorily in the next session. Ms. Quinn indicated that because of the state of the economy, many companies would benefit from state match so they would like to see something put into the plan prior to the next session, and then during the next legislative session she would like to work with this Council to get the program permanently funded.

MONTANA TECHNOLOGY INNOVATION PARTNERSHIP

Mary McMahon, Department of Commerce MTIP Program Manager and John Balsam, John Balsam Associates, LLC presented information on the Montana Technology Innovation Partnership (MTIP) initiative created to promote technology commercialization. The program offers short-term benefits of technology research and development in contrast to the long-term rewards of economic development. Marti Elder and John Balsam both provide counseling such as one-on-one and/or focused group workshops on intellectual property, tech transfer, licensing and innovation, patents and trademarks and government accounting for non-accountants. They also provide business plan coaching and reviews along with review of SBIR applications.

Mr. Balsam emphasized this is a low-cost Department of Commerce program that yields big dividends back to the state. This is a very important, niche-oriented program for the state. This program requires no matching funds and the funds do not have to be repaid since they are grants (as long as the business follows through with its proposed research plan). Funds can be used for salaries, wages, administrative costs, overhead, or assistance with identifying and accessing potential funding opportunities. These funds represent the best source for "seed" capital for the early-stage research and development and subsequent possible commercialization. He therefore encourages the Council to support the commercialization of technology in Montana. The unique approach of providing services by using minimal state funds, staffed with a Program Manager who in turn contracts with Ms. Elder or Mr. Balsam to provide the counseling on an "as needed" basis. The best candidates for SBIR and STTR are companies that partner with universities. They have worked with twenty-three (23) university spin-off companies that have emerged largely from SBIR/STTR awards and have worked with twenty companies that have developed alliances with Montana universities. Mr. Balsam distributed a list of notable MTIP clients. A spring 2009 survey of MTIP clients revealed overwhelmingly that they would not have achieved the success they have with SBIR without the knowledge and expertise and assistance that MTIP

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provides. MTIP brings more money into the state than the program costs. Montana State University (MSU) Tech Link assists Montana small businesses focusing primarily on companies that work with the Department of Defense technologies. The two Montana universities have set new records in 2008 for \$160 million in new research and development coming in.

In closing, Mr. Balsam emphasized and encouraged the Council to adopt recommendations and policies that will continue to support the development and commercialization of new technology both in the private sector and throughout the university system.

Ms. Marchi reiterated that funding does not pay for the grant writing. Mr. Balsam confirmed the program provides assistance on everything but grant writing. Sikorski voiced a concern about maintaining the independence of the university system while taking advantage of commercial opportunities. Mr. Balsam indicated that when invention disclosures proceed with provisional passes and subsequent patents, then the universities own those technologies. Typically, it is not the researchers/universities that are involved at this stage however there are some exceptions.

Representative Fleming asked if Mr. Balsam could provide a list of their clients with their geographic location (city). Balsam will ensure that Council members receive a copy.

STATE TECHNOLOGY PARTNERSHIP COMMITTEE

Dick King, CEO, Missoula Area Economic Development Corporation, which administers a business incubator in partnership with the University of Montana, called Montana Technology Enterprise Center, works with a lot of small companies trying to commercialize university research. Mr. King referenced the State Technology Partnership Committee's mission statement (handout) and distributed a list of members that currently serve on the committee. The committee was created in 2003. Mr. King's presentation regarded the need for policy on research and commercialization that will support scientific research in Montana, the university system, non-profit institutions and the private sector. The Montana University System Science & Technology Advisory Committee (MUSSTAC) makes recommendations regarding research (see handout entitled Montana Science Serving Montana Citizens) and their highest priority is to develop a permanent funding mechanism for "required match" dollars for research grant requests (e.g. EPSCoR). The State Technology Partnership Committee (STPC) and MUSSTAC met to discuss bringing all the interested parties together to form policies and plans for Montana's research and commercialization future. Mr. King added that 55% of the pharmaceuticals licensed by the Federal Drug Administration (FDA) were created by university research.

Chairman Barrett indicated there still seems to be confusion whether or not Montana is required to provide EPSCoR match. Mr. King will have Dr. Dwyer contact Chairman Barrett concerning the match requirement.

WOOD PRODUCTS INDUSTRY RECOVERY & STABILIZATION (WPIRS)

Karyl Tobel, Department of Commerce, Assistant Division Administrator, reported the intent of this program is to provide loans to assist wood product and timber-related businesses that have been affected by the recession. A total of thirty-two (32) businesses have been assisted. Ms. Tobel distributed a map that represents the 2009 funding awarded under this program in western Montana, a spreadsheet listing each company/business and amounts received from state and federal programs and a report that summarizes program loans and businesses assisted. Ms.

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Tobel's presentation (attached as Exhibit D) outlined timelines, requirements, expectations and accomplishments of this program. To date, all but \$530,000 has been committed. Director Preite reported that \$7.5 million from the legislature along with \$2.7 million from the Economic Development Administration (EDA) and \$1.5 million from the Community Development Block Grant (CDBG) program has given the wood products and timber related industry in Montana a chance to survive. Ms. Bailey asked if the \$11 million leveraged will continue to be a revolving fund or is it payable back to the federal agency. Director Preite indicated the first time around the \$11.3 million would go to wood products industry. When the funds are returned back to the state, then those funds will be open across the state for all kinds of projects/programs.

PUBLIC COMMENT

Regional Development Officer (RDO) Program

Chairman Barrett distributed copies of a letter addressed to this Council and copied to the Governor, Commerce Director Preite and the MEDA Board of Directors concerning the recent decision to eliminate the Regional Development Officers (RDOs) effective December 31, 2009.

Mr. King, MEDA subcommittee representative, reported that MEDA is concerned that funding for the RDO program continue for the purpose for which it was intended: supporting the efforts of the local and regional economic development organizations to meet the growing needs of their communities and the businesses therein. MEDA has formed a special committee to prepare recommendations for the use of the approximately \$360,000 in funding during the current biennium that will be available when the RDO program is terminated. MEDA requested that the Council take no action regarding proposed uses of the funds made available from the elimination of the program until they have completed this process. MEDA's recommendation will be submitted to the Department of Commerce, the Governor's Office of Economic Development and this Council no later than December 1, 2009.

Chairman Barrett asked if there were any public comments regarding the RDO program or any other subject of interest. No public comments were made.

OPEN COUNCIL DISCUSSION

Ms. Bailey acknowledged that the Snowy Mountain area of Lewistown is seeing a lot of projects due to Commerce programs outlined earlier in the meeting. She stressed that the local development organizations serving businesses one-on-one are impacted significantly by all the activities related to these efforts and most working with very limited resources.

Ms. Hogan again stressed the importance of a statewide press release showing the ARRA projects and the stimulus dollars awarded to businesses/projects in each community. Chairman Barrett referenced the Recovery Act website: <http://recovery.mt.gov/default.mcpx> that contains this data but he will relay this to the communications section. Ms. Hogan indicated the average Montana citizen does not know where to look for this information and feels it is important for Montanans to see what the stimulus funds are used for in their communities.

Chairman Barrett indicated that according to MCA 2-15-1820 (6) This council shall: (a) advise the department concerning the distribution of funds to Certified Regional Development Corporations (CRDCs) for business development purposes in accordance with [90-1-116](#) and this

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section; (b) advise the department regarding the creation, operation, and maintenance of the microbusiness finance program and the policies and operations affecting the certified microbusiness development corporations; (c) advise the governor and the department on significant matters concerning economic development in Montana; (d) prescribe allowable administrative expenses for which economic development funds may be used by certified regional development corporations; and (e) encourage certified regional development corporations to promote economic development on Indian reservations in their regions. CRDC contracts expire in 2010 and this Council will have the responsibility of reviewing the performance of the CRDCs.

Chairman Barrett pointed out the 2010 Sunset Programs (outlined on Exhibit A slide 3) are a series of economic development programs receiving statutory appropriations (some have base funding as well) that were created in 1999 due to sunset in 2009. The 2009 legislature approved funding for them for another nine (9) years but at the same funding level of 1999 with no inflationary adjustment. To get the same 'buying power' for these programs back in 1999 required a 33% adjustment. Chairman Barrett acknowledged that this Council's role is "to provide advice/recommendations on how the programs and funds should be allocated." The next time this Council meets, he would like a serious discussion on whether to keep the current structure the same with the limited funds available.

Ms. Marchi asked if the Growth thru Ag funding includes the Cooperative Development Centers and indicated we should also look at other funding sources these programs receive from the federal government before making a recommendation. Chairman Barrett said no, the Cooperative Development Centers are private non-profit affiliated with the government that has separate funds.

Representative Fleming asked if these programs could go through the budget process. Chairman Barrett indicated the Coalition favored the statutory appropriation (which takes formal action to stop the funds) and in many cases augments or increases a baseline budget. The advantage of a baseline budget is the inflationary adjustment every biennium. Tuss reported that MEDA took a comprehensive look at these programs prior to last session and has a report that should be shared with this Council regarding the effectiveness of these programs.

Ms. Marchi asked about eliminating the RDO program and how the chain of information is going to flow and work within Commerce. Director Preite reported that ten (10) years ago when the RDO Program was created the CRDC Program did not exist and the local development organizations were not well established. Director Preite felt with the current limited resources the four (4) Regional Development Officer positions could be eliminated but made a firm commitment that none of the resources that were going out to the rural areas thru the RDO program will be diminished. "Resources will be redirected but they won't be diminished."

Mr. Sikorski's preference would be to fund the link between research and commercialization of new technology. After writing his doctorate dissertation on technology, he was really struck by how the economy developed as a result of the introduction of new technologies which has historically fueled economic development.

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Chairman Barrett recommends this Council think about the issues presented today and with the current budgets think of smarter or better ways to accomplish our economic development goals.

Chairman Barrett adjourned the meeting at 3:10 p.m.

A handwritten signature in black ink, reading "Janice Wannebo". The signature is written in a cursive, flowing style.

Respectfully Submitted